



**King County Executive  
RON SIMS**

January 9, 2003

TO: Solid Waste Division Management Team and Union Officers/ Business Representatives

FM: Mike Wilkins, Executive Office

RE: Purpose and Approach – Productivity/New Business Plan for Solid Waste Division

**Introduction**

This memorandum is to introduce myself and to explain my work assignment with the Solid Waste Division. The Executive Office has assigned me to work with you over the next five to six months on the preparation of a new business plan, the initial implementation of productivity measures and other changes that will better position the Solid Waste Division to serve consumers now and after the closure of the Cedar Hills Landfill. One of the most important long term objectives of our work will be to ensure a long term competitive presence of a publicly owned solid waste-handling system in the regional market place. That presence, we believe, will be the only way to ensure protection against unreasonable rate increases.

I think most of you are aware that representatives of private waste-handling companies over the past few years have suggested initiating early waste export and early closure of the Cedar Hills Landfill. The remaining useful life of Cedar Hills with current waste tonnage projections is about ten years. In part because of neighborhood complaints about the operation of the landfill and in part because of the potential liability exposures associated with operating a landfill, there has been some interest in the idea of early closure. (As a side note, we believe the liability exposure issue has been adequately addressed by the recent purchase of a ten-year insurance policy covering the kinds of exposures associated with our landfill). To help inform the discussion about early closure, the Executive Office enlisted outside assistance to estimate the market value of our solid waste facilities, a value which would be lost to the general public if facilities were prematurely closed or underutilized rather than sold. Because that work still is in draft form and because the publication of conclusions about value could adversely affect the County's interests in the event solid waste properties were sold, the preliminary estimates of value are not included in this memo. Suffice it to say, however, the net market value, if the County were to sell, is substantial.

The County Executive has concluded that a third alternative will better serve the public interest than either premature closure of the landfill or sale of our solid waste facilities. This third

*alternative -- productivity improvements and a new business plan that will re-focus the role of the Solid Waste Division to ensure long term protection of rate payers by keeping competitive pressure in the waste-handling market place after the closure of our local landfill -- is the subject of our work over the next few months.*

### **General Objectives or Purposes of the Project**

Until someone else assigns a more descriptive or inspiring label, I will call our work effort the "New Solid Waste Business Plan and Productivity Project" or the "Project." Our direction from the County Executive is to make productivity improvements to our solid waste operations and achieve cost reductions at least sufficient to cover the costs of:

1. *Investing in a new long-term role for King County Solid Waste Division operations that will help protect the consumers of solid waste services from the risk of too few choices in the disposal of waste with the consequent effect on prices.* Although it is not yet clear what role would best protect the public interest long term, at least two possibilities merit serious consideration. The first possibility is investment in an intermodal facility that will broaden the access to a greater number of remote landfills and thereby ensure more competitive long term pricing. The second possibility is investment in a remote landfill. Either or both of these possibilities could be explored in concert with other public partners. In addition to exploring these two specific possibilities for ensuring competitive pressures in the waste-handling market place, we will be exploring other possibilities, some of which may require legislative authority we do not currently have. A nationally recognized consulting firm, HDR Engineering, Inc., has been retained to advise and assist us. HDR has particular expertise in helping public waste-handling systems become competitive and in fostering competitive pressures to protect ratepayers.

The purpose of such a prospective investment is to ensure continuing competitive pressure in the waste-handling marketplace, the beneficial effects of which are well documented locally and nationally. The best example locally is Seattle's decision in the mid 1990's to promote competition in the collection of business generated waste by exercising its authority to implement competitively let contracts. New eight-year contracts were negotiated at a savings of about \$5 million per year from the previous rates charged to Seattle businesses. The life-of-contract savings will be about \$40 million. Competitive bids will be solicited when the current contracts expire with the expectation that even more savings will be achieved. Such results have been achieved in other communities like Babylon, New York which reportedly let competitively bid contracts for commercial waste collection resulting in a 50% decrease in prices in the first solicitation and an additional 25% decrease in the second solicitation.

2. *Making fair rental payments from the Solid Waste Fund to the Current Expense Fund for use of real property owned by the County generally and not by the Solid Waste enterprise.* Though there may be other properties for which Solid Waste should make

property rental payments to the benefit of the Current Expense Fund, the most significant is the Cedar Hills Landfill. The landfill property was deeded to King County in 1992 and was used by the County previous to that time under a lease from the State of Washington. Although rent could have been and should have been charged for the Solid Waste Division's use of that property since 1992, the County's present Current Expense financial problems now necessitate better business practices, including the collection of this rent. With the assistance of a commercial real estate firm, we have preliminarily calculated that a fair annual rental value of the landfill property starting in 2004 will be about \$ 7 million escalating at 6% per year for each of the next eight years. (If we decide to use a different inflationary adjustment the starting number will change accordingly.) Upon closure of the landfill, currently projected in 2012, the rental rate for the landfill will have to be recalculated to reflect different uses of the property, including post closure operations and the likely use of the property for maintenance facilities and equipment storage. In addition to rental obligations for different property uses in the years following landfill closure, we believe the most reasonable and useful way to deal with retroactive rental obligations from 1992 through 2003 will be to calculate the future value of those obligations and spread the payments over a reasonable period of years after 2012, rather than place a heavy one-time burden on the solid waste financial plan and provide a large one-time windfall to the Current Expense Fund. Combined with rental income for future use of the property, the retroactive rental annuity will continue to provide a sizeable income stream to the general County government for at least 10 to 15 years beyond 2012, **assuming we continue to operate a financially healthy county owned solid waste operation which will be able to pay that rent in the future.**

**The Executive intends to work with the County Council, with cities and with other stakeholders on the package of services that would be protected by the initiation of this stream of rental payments.**

The "productivity target" necessary to achieve the two objectives summarized above will be \$7 million (annual site rental obligation) plus an as yet undetermined amount necessary for investment in facilities and operations needed to ensure long term competitive pressures in the market place to hold waste-handling rates in check. **The County Executive's direction to us is to achieve the above objectives without any rate increases to residents and businesses that generate waste beyond the increases already expected and reflected in the Solid Waste Division's financial plans.**

### **General Process and Schedule**

We will need to prepare a more detailed work plan for achieving the two objectives described above, but generally the approach will include the following elements:

1. We will work closely with labor leadership. We will both seek the ideas of labor and share the ideas of management with labor.
2. We will consider, among other things, technology improvements, elimination of or changes to "unproductive" services and hours of operation, work process changes,

- and changes to the rate structure (provided the changes do not adversely affect residents and businesses that generate waste).
3. We will use the services of an outside consulting firm, HDR, which has broad experience in the industry, will be able to provide us with new insights into process changes or technology that we haven't previously considered, and most importantly, make us competitive with other waste-handling organizations.
  4. The outcomes will include a reduction in the size of workforce, with the reductions coming from most if not all the work units in the Division. As with other workforce reduction efforts in the past four to five years, the Executive has directed us to make an extraordinary effort to find other jobs for employees who want to continue employment with King County. Among other things, this effort will mean decisions to hold certain jobs open longer than we would normally do so to increase our chances of finding appropriate alternative jobs for employees who would otherwise be laid off.
  5. Finally, we will need to conduct our work within a tight schedule that will bring the work to a conclusion no later than May. (To be sure, some of the long term planning for a changing role post landfill closure will continue over a number of years). There are three reasons for the tight schedule. The first is that the Solid Waste Division will need to prepare its budget request for 2004 by about May, possibly a little earlier, and the budget request will have to reflect the changes expected from this work effort. The second is that the Executive and his Office of Management and Budget will need certainty that the rental payment to the Current Expense Fund can be made without impairing basic solid waste operations and that the rental amount is a reliable revenue. The third and, from the standpoint of decent treatment of our employees, the most important, is that early decision making will significantly improve our chance of finding alternative jobs for affected employees before the effective date of any layoffs.

We have already begun scheduling meetings over the next few weeks to begin work. I have worked with some of you in the distant and recent past, and I have the highest regard for the Department and the Division's management, employees and the collective bargaining organizations that represent most of the employees. I consider it a privilege to work with you again.

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cc: Ron Sims, King County Executive  
Calvin Hoggard, Chief of Staff, Policy & Strategic Decision Making, Executive Office  
Steve Call, Budget Office Director, Management & Budget, Executive Office  
Pam Bissonnette, Director, Department of Natural Resources and Parks